

Message Text

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INFO OCT-01 IO-13 ISO-00 CEA-01 CIAE-00 COME-00
DODE-00 EB-07 FRB-03 H-01 INR-07 INT-05 L-03
LAB-04 NSAE-00 NSC-05 PA-01 EPG-02 AID-05 SS-15
STR-04 ITC-01 TRSE-00 USIA-06 PRS-01 SP-02
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FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 0677
INFO ALL EC CAPITALS
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USEEC

GENEVA FOR MTN
PARIS ALSO FOR OECD

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TAGS: EEC, EIND, ETRD, EGEN
SUBJECT: RESTRUCTURING OF EC STEEL INDUSTRY

REF: EC BRUSSELS 2592

1. SUMMARY: THE EC COMMISSION IS PURSUING PLANS TO
RESTRUCTURE THE COMMUNITY STEEL INDUSTRY IN THE WAKE
OF THE RECESSION AND CHANGES AFFECTING THE COMPETITIVE-
NESS OF EC STEEL. THE RESTRUCTURING EFFORT AS PRE-
SENTLY ENVISAGED WILL INVOLVE SUBSTANTIAL AIDS TO
MODERNIZE INVESTMENT, CLOSURE OF ANTIQUATED FACILITIES,
MERGERS, COORDINATION OF NATIONAL AID PLANS, AND
CREATION OF REPLACEMENT JOBS. MANY OBSERVERS ARE
SKEPTICAL ABOUT THE COMMISSION'S ABILITY TO ACT
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QUICKLY ENOUGH OR TO FORCE THE DIFFICULT DECISIONS TO
ELIMINATE INEFFICIENT PLANTS. WITHOUT EFFECTIVE
LEADERSHIP FROM THE COMMISSION, HOWEVER, IT IS LIKELY
THAT NATIONAL AIDS AND PROTECTIONIST MEASURES WOULD
QUICKLY PROLIFERATE. END SUMMARY.

2. AS A PART OF ITS LONG-RANGE PLAN TO SHORE UP

THE EC STEEL INDUSTRY (DAVIGNON PLAN), THE EC COMMISSION HAS STARTED TO PREPARE FOR A RESTRUCTURING EFFORT AIMED AT PRODUCING A MORE COMPETITIVE INDUSTRY WITH A MORE REALISTIC PRODUCTION CAPACITY. THE FIRST STEP IN THE PROCESS WILL BE AN OVERHAUL, WITHIN THE NEXT SIX MONTHS, OF THE COMMISSION'S "GENERAL STEEL OBJECTIVES 1980-1985" (PUBLISHED LAST YEAR) EXTENDING THEM UNTIL 1990 AND INCORPORATING THE RESULTS OF THE 1975-1976 CRISIS YEARS. THE REVISED OBJECTIVES MUST DEAL WITH A GROSS MISMATCH OF CAPACITY AND DEMAND FOR EC STEEL WHICH HAS THREATENED WIDESPREAD FAILURE OF STEEL ENTERPRISES AND MENACED ONE OF THE PILLARS OF THE COMMON MARKET.

3. WHEN THESE MANAGEMENT STUDIES ARE COMPLETED AND THE CONCLUSIONS ABOUT NEEDED CAPACITIES AND TECHNIQUES FOR THE 1980-90 PERIOD KNOWN TO COMMISSION OFFICIALS, THE COMMISSION INTENDS TO DRAW UP INVESTMENT GUIDELINES. THIS SHOULD BE COMPLETED BY THE END OF 1977. TO OBTAIN THE COOPERATION OF STEEL INVESTORS WITH THE GUIDELINES, THE COMMISSION INTENDS TO USE FINANCIAL AID IN ACCORDANCE WITH ARTICLES 54 AND 56 OF THE EUROPEAN COAL AND STEEL COMMUNITY (ECSC) TREATY.

4. ALTHOUGH THE SCOPE OF EC INTERVENTION WILL UNDOUBTEDLY BE INFLUENCED BY MARKET DEVELOPMENTS LIMITED OFFICIAL USE

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THROUGH THE END OF THE YEAR, COMMISSION OFFICIALS BELIEVE THAT THEIR PLAN WILL REST ON THE FOLLOWING ELEMENTS:

-- BORROWING OF NEARLY ONE BILLION DOLLARS ANNUALLY FOR INVESTMENT AIDS UNDER THE ECSC'S AAA BOND RATING.

-- CLOSURE OF ANTIQUATED FACILITIES.

-- MERGER OF COMPANIES IN PARTICULARLY WEAK AREAS SUCH AS LORRAINE, WALLONIA, AND THE SARR.

-- COORDINATION OF NATIONAL AID PLANS TO ENSURE THAT JOB LOSSES ARE SPREAD FAIRLY EVENLY.

5. NEW INVESTMENT WILL NOT BE ELIMINATED, BUT THE COMMISSION'S PRIORITY WILL BE FOR ADAPTION OF EXISTING CAPACITY, ESPECIALLY IN PLANTS WITH GOOD PORT FACILITIES. WHEN THERE IS INVESTMENT IN NEW CAPACITY, THE COMMISSION EXPECTS A BALANCING REDUCTION OF OUTDATED CAPACITY.

6. IN ADDITION TO DIRECT INVESTMENT ASSISTANCE, THE COMMISSION WILL PROVIDE LOANS FOR ACTIVITIES UPSTREAM AND DOWNSTREAM FROM STEEL, WORKER RESETTLEMENT AND RETRAINING, AND INTEREST REBATES ON LOANS. THE COMMISSION INTENDS TO INCREASE LOANS AIMED AT A COMMON SUPPLY POLICY FOR ACQUISITION AND DEVELOPMENT OF COKING COAL MINES IN THE US AND IRON ORE MINES IN LIBERIA AND CANADA. DOWNSTREAM AIDS WILL BE DIRECTED AT ACTIVITIES SUCH AS TUBE MILLS WHICH CONTRIBUTE SIGNIFICANTLY TO THE MARKET FOR STEEL PRODUCTS.

7. ADJUSTMENT ASSISTANCE FOR DISPLACED WORKERS WILL BE A KEY ELEMENT OF THE STEEL PLAN. COMMISSION OFFICIALS ADMIT THAT TO SUCCEED, RESTRUCTURING MUST LIMITED OFFICIAL USE

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BE SYNONOMOUS WITH RECONVERSION AND REPLACEMENT JOBS

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MUST BE CREATED. BUT CREATING NEW JOBS BY ATTRACTING INVESTMENT TO DEPRESSED STEEL AREAS WILL BE DIFFICULT SINCE THESE REGIONS ARE ALSO AREAS OF GENERAL DEPRESSION.

8. THE TOTAL COST OF THE PLAN IS IMPOSSIBLE TO ESTIMATE AT PRESENT SINCE IT WILL DEPEND GREATLY ON MARKET DEVELOPMENTS. HOWEVER, THE COMMISSION HAS ANNOUNCED PLANS TO RAISE UP TO \$1 BILLION ON INTERNATIONAL CAPITAL MARKETS IN 1977. TO THIS IT WILL ADD \$20 MILLION FOR INTEREST REBATES (\$40 MILLION IN 1978) DIVERTED FROM THE STEEL RESEARCH BUDGET. MONEY TO ASSIST RELOCATION AND RETRAINING OF DISPLACED WORKERS WILL COME FROM THE REGIONAL FUND AND THE NEW SOCIAL FUND. THE COMMISSION ESTIMATES THAT ABOUT HALF THE FUNDS NEEDED WILL COME FROM MEMBER STATE SOURCES AND THE COMMISSION HAS REMINDED THE MEMBER STATES THAT UNDER CERTAIN CIRCUMSTANCES THE COMMISSION CAN AUTHORIZE NATIONAL AIDS PROVIDED THEY ARE OF "COMMON INTEREST", I.E., AID WHICH CONTRIBUTES TO LIMITED OFFICIAL USE

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REORGANIZATION OF SECTORS WITH STRUCTURE DIFFICULTIES AND AIDS FOR PRODUCTIVITY RESEARCH.

9. ACCORDING TO EC OFFICIALS THE SITUATION IN THE STEEL INDUSTRY HAS NOT IMPROVED SINCE THE MINI-BOOM OF SPRING 1976 WENT BUST LAST FALL. PRICES REMAIN BELOW COST FOR MANY PRODUCERS, CAPACITY UTILIZATION HOVERS AROUND 65 PERCENT AND 100,000 OF THE 700,000 INDUSTRY WORKERS ARE ON SHORT TIME. EXPORTS TO THIRD COUNTRY MARKETS (HISTORICALLY ACCOUNTING FOR OVER 40 PERCENT OF EC SALES) HAVE BEEN DROPPING SHARPLY RECENTLY. WITH AGGRESSIVE MARKETING POLICIES BY SOUTH AFRICA AND CERTAIN ASIAN AND DEVELOPING COUNTRIES. THE ONLY STEEL COMPANIES MAKING A PROFIT ARE THOSE FEW WHICH HAVE SUFFICIENTLY DIVERSIFIED.

10. ALTHOUGH THE RECESSION IS PRIMARILY RESPONSIBLE FOR PRESENT PROBLEMS, THE COMMISSION FEELS THAT THE INDUSTRY HAS A BASIC STRUCTURAL PROBLEM AND LASTING IMPROVEMENT CANNOT BE EXPECTED EVEN WITH AN ECONOMIC UPSWING. THE FUNDAMENTAL CHANGES THAT HAVE UNDERMINED EUROPEAN COMPETITIVENESS FOR THE FUTURE INCLUDE AGING OF PLANT STRUCTURE, DEPLETION OF INTERNAL EC RESOURCE REQUIREMENTS FOR COKING COAL AND IRON, ENERGY COSTS, HIGH WAGES, AND THE TRANSFER OF TECHNOLOGY IN STEEL MAKING, COUPLED WITH THE COMMITMENT TO STEEL EXPORTS ON THE PART OF SEVERAL IMPORTANT LDC PRODUCERS.

11. FACED WITH BLEAK PROSPECTS, THE EC INDUSTRY HAS BEEN HESITANT TO INVEST IN NEW PLANTS AND EQUIPMENT. COMMISSION OFFICIALS SAY THERE HAVE BEEN NO

NEW IMPORTANT INVESTMENT DECISIONS SINCE MID-1976.
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12. COMMISSION STEEL OFFICIALS MAINTAIN THAT SINCE THE CAUSES OF THE STEEL CRISIS ARE STRUCTURAL, PURELY NATIONAL MEASURES ARE INCAPABLE OF PROVIDING A SOLUTION; ANY RESTRUCTURING MUST BE IN A EUROPEAN CONTEXT. MANY STEEL PRODUCERS, HOWEVER, ARE SKEPTICAL OF THE COMMISSION'S ABILITY TO ACT EFFECTIVELY OR QUICKLY ENOUGH AND POINT OUT THAT NATIONAL AND REGIONAL DISPARITIES SUCH AS STATE-OWNED (ITALY AND THE UK) VERSUS PRIVATE OWNERSHIP MAKE THE TASK DOUBLY DIFFICULT.

13. FOR ITS PART THE COMMISSION RECOGNIZES THE ENORMOUS POLITICAL SIGNIFICANCE OF THE STEEL PROBLEM AND FEARS THAT FAILURE OF THE COMMISSION TO ACT WILL LEAD INEXORABLY TO A PROLIFERATION OF NATIONAL AIDS (THEORETICALLY PROHIBITED BY THE ECSC TREATY) AND TO THE ULTIMATE DESTRUCTION OF THE ECSC.

14. COMMENT: WHILE THE COMMISSION'S INITIATIVE ON THE STEEL SITUATION IS GENERALLY WELCOMED BY INDUSTRY, THERE IS LITTLE CONFIDENCE THAT THE RESTRUCTURING EFFORT WILL PRODUCE RESULTS SOON ENOUGH TO SAVE THE MORE DESTITUTE FIRMS FROM FAILURE OR NATIONALIZATION. ITS MOST VALUABLE CONTRIBUTION SO FAR IS THAT IT HAS PRESERVED THE UNITY OF THE MARKET BY CONVINCING MEMBER STATES AND PRODUCERS THAT THEY ARE FACING A EUROPEAN PROBLEM.

15. REAL OPPOSITION TO THE IDEA HAS COME ONLY FROM THE FRG SO FAR WHICH IS WORRIED ABOUT COMMISSION INTERVENTION IN WHAT WAS A RELATIVELY FREE MARKET. THE GERMANS APPEAR RESTRAINED, HOWEVER, BY THE COMMISSION ARGUMENT THAT THE ONLY ALTERNATIVE IS MORE NATIONALIZATION AND AN EVEN LESS-FREE MARKET.

16. ALTHOUGH THE DAVIGNON PLAN WITH ITS MINIMUM PRICES, DELIVERY QUOTAS AND INVESTMENT GUIDELINES
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DOES HAVE A STRONG INTERVENTIONIST FLAVOR, IT IS A

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PRAGMATIC APPROACH--AND NOT A RIGID BLUEPRINT. IN ADDITION TO BEING A TEMPORARY POLICY, IT IS WITHIN THE SCOPE OF THE ECSC TREATY WHICH, RECOGNIZING THE CAPITAL INTENSIVENESS OF THE INDUSTRY AND ITS VULNERABILITY TO SHORT-TERM FLUCTUATIONS, PROVIDED FOR INTERVENTION BY THE COMMISSION IF NEEDED. WHEN USED IN CONCERT, THE VARIOUS LOAN PROGRAMS COULD BE AN EFFECTIVE LEVER. NEGATIVE CONTROL IS ENHANCED BY THE FACT THAT COMMISSION DISAPPROVAL OF A PARTICULAR INVESTMENT WILL AFFECT ACCESS TO FINANCIAL MARKETS AND COMMERCIAL BANKS OF THE COMPANY CONTEMPLATING INVESTMENT. NEVERTHELESS, THE COMMISSION'S ABILITY TO INFLUENCE THE REALLY DIFFICULT DECISIONS, WHICH PLANTS MUST BE CLOSED, IS LIMITED. ALREADY EVENTS IN THE UK, BELGIUM AND FRANCE HAVE DEMONSTRATED THE PRESSURE ON GOVERNMENTS TO KEEP INEFFICIENT FACILITIES OPERATING.

17. THE INDIRECT IMPACT OF THE RESTRUCTURING PROGRAM ON US/EC TRADE IS DIFFICULT TO PREDICT, BUT TWO
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ELEMENTS MIGHT BE KEPT IN MIND: FIRST, IF SUCCESSFUL, THERE WOULD BE SOME REDUCTION OF CAPACITY IN THE EC AND PROBABLY A REDUCED SHARE OF THIRD COUNTRY MARKETS.

IN THE LONG TERM THIS WOULD MEAN A REDUCTION IN THE
POTENTIAL TRADE DEFLECTION IMPLICIT IN ANY EC ATTEMPT
TO RESTRICT IMPORTS OR MAINTAIN EXPORT MARKETS
ARTIFICIALLY. (THIS EFFECT MIGHT BE REDUCED IF THE
EC BEGAN TO CONCENTRATE MORE ON PRODUCTION OF
SPECIALTY STEELS FOR WHICH IT HAS A COMPARATIVE
ADVANTAGE.) SECOND, A SUCCESSFUL COMMISSION EFFORT
WOULD PREEMPT OTHERWISE INEVITABLE PROTECTIONIST
MEASURES AT THE NATIONAL LEVEL. HINTON

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Message Attributes

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